THE CANADA-UNITED STATES FREE TRADE AGREEMENT

QUESTIONS AND ANSWERS

Alberta
FEDERAL AND
INTERGOVERNMENTAL AFFAIRS

CANADA

CANADA-UNITED STATES FREE TRADE AGREEMENT

Alberta, a leading advocate of a free trade agreement with the United States, remains steadfast in its conviction and belief that all Canadians will benefit from this agreement. Free trade will enable Canada to take advantage of opportunities to restructure its economy, making it more competitive in the world marketplace of the 1990s and beyond.

In the West, we know that Canada cannot be a strong nation if its regions are weak, with only its centre prospering. We see the free trade agreement as one of the surest routes to a fair and balanced economy, with each region building upon and prospering from its strengths.

Canada and the United States are each other's largest trading partners. No two nations in the world buy as much from or sell as much to each other, or invest as much in the other's economy. This agreement puts our economic relationship on a firmer foundation, and virtually eliminates our vulnerability to protectionism.

This document has been developed for Albertans, and addresses their specific circumstances. The questions and answers are based on the final text of the agreement which was released in mid-December 1987. The agreement was signed on January 2, 1988 by Prime Minister Brian Mulroney and President Ronald Reagan.

June 1, 1988

CANADA-UNITED STATES FREE TRADE AGREEMENT QUESTIONS AND ANSWERS

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I. GENERAL ECONOMIC IMPACT

1 **Question:** **How will the free trade agreement affect the Canadian economy?**

Answer: The free trade agreement will place Canada in a position to gain substantial economic benefits in the long term. Benefits will accrue from enhanced and more secure access to the U.S. market which will raise Canadian production, employment, trade, and investment. Access to the larger U.S. market will provide the opportunity for larger scale production facilities in Canada and improved competitiveness.

Economic benefits to Canada can be categorized into a number of areas including:

- increased real disposable income for Canadians due to lower inflation, increased productivity and higher levels of employment;
- improved productivity as a result of longer production runs and greater product specialization;
- lower consumer prices for both imported products from the U.S. as a result of tariff removal, and domestic products as a result of increased productivity;
- increased long-term investment in Canada from American, other foreign and Canadian sources as a result of enhanced security of access to the U.S. market which will boost international confidence in the Canadian economy; and
- improved export opportunities in the U.S. market as a result of the removal of trade barriers, and in third markets as a result of the increased competitiveness of Canadian products.

2 **Question:** **Do economic studies substantiate the positive effects of free trade?**

Answer: Virtually all major economic studies estimate economic gains for Canada as a result of the free trade agreement. The Economic Council of Canada released a report in April 1988, and estimated that the free trade agreement would raise the Canadian National Expenditure by an average of 2.5 per cent. The federal Department of Finance concurs with these estimates, and the Conference Board of Canada studies indicate a 1.7 per cent growth in Gross Domestic Product. The Canada West Foundation has also recently released a report, which indicates that real income will rise by 2.5 to 3 per cent over the next ten years. In summary, Canada is expected to be a net beneficiary from the free trade agreement.

These particular studies represent only a few of the many that have been conducted by numerous groups and firms across Canada. It is important to note that all of the figures from these studies indicate an increase in GDP over and above any increase that would have occurred without a free trade agreement.

3 **Question:** **What will happen here in Alberta?**

Answer: The benefits to Alberta of the free trade agreement will be similar to those for Canada.

Consumers will benefit from lower prices and a wider variety of goods from which to choose. Lower costs will result from the elimination of tariffs and non-tariff barriers on goods imported into Canada from the United States.

Increases in real income for Albertans should result in additional demand for those goods and services which are not traded across borders. Therefore, companies providing goods and services not directly affected by the agreement also will benefit.

Exporters will no longer face tariffs and non-tariff barriers on goods going to the U.S. market. A number of key U.S. non-tariff barriers to trade have also been eliminated. This will lower the costs of exporting to the U.S., increase company profitability, expand exports from Alberta, attract additional investment, and generate new jobs.

Reduced barriers to the movement of capital will result in more investment in Alberta, generating more jobs and income for Albertans. In fact, the April 1988 study by the Economic Council of Canada estimates that over 30,000 **extra** jobs will be created in Alberta over the next ten years.

4 **Question:** **How will the free trade agreement affect the average Albertan, the consumer?**

Answer: Under the free trade agreement, Albertans - Canadians - will enjoy higher real wages and lower inflation, resulting in more disposable income to purchase a greater variety of products which will cost less.

In the past, Canadian consumers have been limited in their selection, and/or paid higher prices, both for imported goods and those Canadian products which have foreign-made components. This has occurred in the automobile, textile, clothing and footwear sectors, among others. Protectionism results in Albertans paying a hidden import sales tax, or higher prices because of lack of competition.

CANADIAN TARIFFS ON IMPORTED U.S. CONSUMER DURABLES ($Cdn.)					
Consumer Product	Percentage of Imports Originating in the U.S	Average U.S Border Price	Import Tariff	Canadian Price	Cost of Tariff to Canadian Consumers
Washing Machine	95%	$395.86	12.5%	$445.34	$49.48
Clothes Dryer	81%	$293.74	12.5%	$330.46	$36.75
Electric Stove	93%	$436.18	12.6%	$491.14	$54.96
Dishwasher	99%	$371.98	12.5%	$418.48	$46.45
Vacuum Cleaner	89%	$153.31	12.5%	$172.47	$19.16
Nylon Carpet*	93%	$10.85	20.0%	$13.02	$ 2.17
Vinyl Flooring*	86%	$4.74	13.5%	$5.38	$ 0.64

* Units in square metres

Source: Alberta Economic Development and Trade - Compiled from Statistics Canada data

Not only will individual Albertans benefit, but Alberta firms and businesses also will benefit from the lower input costs they pay for imported goods and services. This will increase their earnings, thereby providing additional capital for expansion, and assisting them to become more competitive in both domestic and international markets. These expanded business opportunities will translate into more jobs.

5 **Question:** **What will the free trade agreement mean for Canadians bringing goods from the United States into Canada?**

Answer: On January 1, 1989, Canadian tariffs on a wide range of U.S. dutiable goods will be eliminated. At the same time, Canadian tariffs on all other U.S. dutiable goods will be reduced to either 80 or 90 per cent of their current rates.

Only goods which originate in Canada or the United States will qualify for tariff reduction and elimination. For goods incorporating offshore raw materials or components, it has been agreed that they will qualify for tariff reduction where they have been sufficiently changed either in Canada or the United States. These rules will ensure that only Canadian and U.S. producers will benefit.

6 **Question:** **Who are the winners and losers in the agreement?**

Answer: A number of studies have addressed this question. As might be expected, the impact varied from region to region across Canada. Most industry sectors were found to benefit from free trade - included here are the most important components of the Alberta economy - agriculture, mining (oil and gas), forest products, processed food, construction, services, and petrochemicals.

Some Canadian industry sectors have been identified which could be affected negatively by free trade - textiles, knitting mills, the wine industry, rubber and plastics, leather, and electric consumer product. It should be noted, however, that the future of these businesses is dependent upon a number of factors, such as international competitive pressures, that are not related to the agreement. Decisions made by businesses with respect to productivity enhancement, plant and equipment upgrading and management practises will all be important in determining the outcome for these sectors.

7 **Question:** **What kind of Alberta businesses stand to benefit the most?**

Answer: Petrochemical companies, oil and gas producers, livestock and meat producers, processed food producers, oil and gas field services companies, specialized electrical product manufacturers, grain and oil seed producers, specialized equipment manufacturers, and the forestry sector will all benefit from removal of U.S. tariffs and elimination of threats of import duties, quotas, and other barriers.

(Note: Numerous sectors are dealt with separately, see Table of Contents)

8 **Question:** **How does the small business sector view the agreement?**

Answer: Support for the agreement from Canada's small business community has been consistently strong. In face-to-face interviews with more than 4,400 owners of small and medium-sized businesses, the Canadian Federation of Independent Business asked them ''What overall result would a Canada-U.S. agreement to lower trade barriers have on your business?'' Thirty-eight per cent believed the impact would be positive; interestingly, 25 per cent expected no impact; 30 per cent were undecided; while only 6.5 per cent anticipated a negative impact. The results in Alberta were even more encouraging: 49.7 per cent were positive, among the highest in Canada; 17 per cent didn't expect to be affected; 30 per cent were undecided; and just 3.4 per cent expected a negative impact, among the lowest in Canada.

9 **Question:** **How will free trade affect Alberta's efforts to diversify its economy?**

Answer: The Canada-U.S. Free Trade Agreement will provide Albertans with greater opportunities to build and diversify based on our strengths. Diversification, to a large extent, results from adding value to and upgrading our natural resources and agricultural products. The free trade agreement will provide us with these opportunities.

Secure and enhanced access to the large U.S. market will attract more investment, resulting in the creation of new opportunities for manufacturing, high technology, and service companies (communications equipment, computer and data applications, etc.). Small and large manufacturing and service companies will have a greater opportunity to expand and serve new markets in the U.S.

Opening and securing access to the U.S. market also will assist diversification efforts in other sectors: the forestry industry - wood products, waferboard, oriented strandboard, pulp; agricultural processing, which will benefit from reduced input costs; and tourism and business travel, which will benefit from easier movement across borders.

Alberta is a trading province. It has a world-wide reputation for quality products and workmanship and is noted for being on the leading edge of technological innovation. The free trade agreement will make it easier for Alberta firms and businesses to expand into new markets, to diversify their product lines, and to market their technologies and services abroad. By ensuring greater and more secure access to the U.S. market, the free trade agreement will contribute significantly to Alberta's diversification efforts.

10 **Question:** **Are Canada's regional development policies, such as the new western diversification initiative, going to be restricted by the agreement?**

Answer: Regional development policies are not restricted by the free trade agreement. As part of the agreement, Canada and the U.S. have agreed to establish a new trade regime over the next five to seven years to address the issues of subsidization and dumping. In the interim, current trade laws will continue to apply. Therefore, while regional development programs are still permissible, they may also be subject to countervailing duty action if they are large enough to distort trade, and cause injury to the U.S. The free trade agreement tries to create a climate of fair access to each other's markets. It does not create a situation where unfair subsidies are allowed for either side.

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11 **Question:** **What will the free trade agreement mean for investment in Alberta?**

Answer:

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Article 1602/3
Page 233-5

Investment decisions are primarily market driven, determined by prevailing economic conditions. Rules affecting the entry or performance of foreign investment, however, can either encourage or impede investment. The free trade agreement relaxes regulations governing the review of U.S. investment in Canada, and creates an environment more conducive to substantial new investment in Alberta. It also provides more freedom from U.S. regulation for Canadian enterprises operating across the border.

The demise of restrictive federal policies such as the National Energy Program and the Foreign Investment Review Agency represented one step in reversing the perception that Canada did not welcome foreign investment; the investment provisions of the free trade agreement represent another, even more significant step in the process.

All Albertans know how important American investment has been to the development of our province. The application of the principle of national treatment with regard to future regulations erected by either Canadian or U.S. authorities, the elimination of performance requirements, more liberal rules on the acquisition of existing business, and provisions for expropriation and transfers all restore an element of certainty into the investment decision-making process. For both Canadian and U.S. investors, this will generate new and better prospects for increased investment activity, and create greater employment opportunities for Albertans. There will be an introduction of new technologies, improved development of Alberta's natural resources, and a number of other benefits which would be more difficult to attain in a restrictive investment and trade environment.

12 **Question:** **Will Canada retain its right to review U.S. investments in and acquisitions of Canadian companies?**

Answer: Canada will retain the right to review U.S. acquisitions of Canadian businesses but has agreed to phase in higher asset thresholds for direct acquisitions. Currently, direct acquisitions are reviewable if the assets of the Canadian business exceed $5 million. Under the free trade agreement this level would be increased in stages to $150 million by 1992 for U.S. investors. Review of indirect acquisitions, now triggered if Canadian assets are valued above $50 million, would be phased out. Investment in new businesses will continue to be non-reviewable.

These changes to the Investment Canada review process will not apply to the oil and gas and uranium sectors. Acquisitions or new business establishments by U.S. investors in industries related to Canada's cultural heritage or national identity will continue to be reviewable at Canada's discretion.

It is interesting to note that Canada is investing in the United States more rapidly than the United States is investing in Canada. In fact, by 1996, we will have as much invested in the United States as the U.S. has in Canada. Between 1980 and 1985, Canadian investment in the United States grew from $16.4 billion to $35.5 billion. U.S. investment in Canada grew by some $4.5 billion less, increasing from $48.7 billion in 1980 to $63.4 billion in 1985. Canadian investment in the United States has grown from 33.7 per cent of U.S. investment in Canada (1980) to 60.0 per cent (1985)

13

Question: **What does the free trade agreement mean for the value of the Canadian dollar compared to the U.S. dollar?**

Answer: Although the beneficial impacts of the free trade agreement, such as heightened Canadian productivity and increased investment in Canada, are likely to result in a stronger Canadian dollar, there is nothing in the agreement itself dealing specifically with currency and exchange rates. The value of the Canadian and U.S. dollars will continue to be set by a wide variety of market conditions in the world, and will react to changes in fundamental economic indicators such as investment, productivity and inflation rates.

14

Question: **Will government assistance be provided to workers and businesses displaced by the implementation of the free trade agreement?**

Answer: Even before free trade, both the Canadian and Alberta governments provided assistance programs so workers could acquire new or additional skills, and businesses could adjust to market and technological changes, thus taking advantage of unfolding opportunities.

In light of the agreement, the federal government has established an Advisory Council on Adjustment to assist the government in identifying ways to ensure that Canadians take full advantage of the new opportunities arising out of the free trade agreement. The council will also provide advice regarding the sensitive sectors during the transition period.

The Alberta government is reviewing existing programs to determine if additional assistance will be required during the transition period. Current programs will be redesigned, if necessary, to meet the needs of workers and businesses within any sensitive sectors.

The Canadian Federation of Independent Business is of the view that the adjustments small and medium-sized businesses will have to make during the next 10 years ''as a result of changing technology and increasing competition from newly industrialized countries will be far more severe than any adjustments'' required as a result of a lowering of Canada's trade barriers with the United States. The Federation has said that ''the new bilateral trading arrangements will, however, enable small business to cope with the forces of change from a position of strength''.

II. ENERGY

15 **Question:** **Do we now have a continental energy policy? Are we losing control over our resources?**

Answer: The free trade agreement opens up and secures the energy market, it does not create a continental energy policy. Policies, laws, regulations, control of resource development, conservation practices, management of resources - these are all the constitutional responsibility of Alberta, are set by Alberta, and they will continue to be set by Alberta.

The energy sector was relatively free of barriers well before the free trade agreement, with both Canada and the United States independently moving their energy policies into a more deregulated climate. The problem Canada faced was how to ensure that protectionist measures, which had started to appear, could not lessen our access in the future.

Canada, at Alberta's urging, has changed its **own** energy policy. We have de-regulated, removed the constraints, opened up the market for our companies, secured access for them, and they now have the opportunity to expand. This is not a continental policy. This is **our** policy - what we advocated, sought, and achieved.

16 **Question:** **What did Alberta achieve for the energy sector out of the free trade agreement?**

Answer:
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Articles 407-409
Pages 54-56
Article 905
Page 147

Plenty. Industry will have secure access to markets. Also, the agreement establishes a long-term stable environment, which should help Alberta industry planning. Second, the United States is prohibited from implementing energy import fees, surcharges, taxes and quotas in the future. The United States is further committed to consultation and dispute settlement procedures on regulatory rulings.

17 **Question:** **Has Canada made a commitment to share our energy supplies?**

Answer:
Article 904
Page 146

Yes, a commitment to share energy supplies, including oil, is contained in the free trade agreement. The commitment for access to other commodities and for crude oil is no different than Canada's existing commitments under the GATT and the International Energy Agency (IEA). Few people realize or seem to recall that Canada, along with 20 other western industrialized countries, currently has obligations to share oil supplies - during emergency shortages - as part of the International Energy Agency. These obligations have been in effect since 1974.

Under the free trade agreement, Canada has re-affirmed these commitments and agreed to their application on a bilateral basis.

18 **Question:** **Does agreement to share our energy with the Americans in case of shortages mean that other parts of Canada will do without?**

Answer:
Article 904
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No, the agreement does not mean that some Canadians will be without energy while the United States has unrestricted access to our supplies. The key facts to note about the sharing arrangements implemented under the agreement are:

- first, it is the exporting party (Canada) which would declare a shortage to exist;
- second, the sharing is not automatic, but related to historic volumes sold;
- third, it relates only to contracted volumes in existence at that time; and
- fourth, a higher export price can result from the imposition of volume controls, although a government imposed export price is not permissible. This would be consistent with deregulation.

Canada's future energy security will not be adversely affected by the free trade agreement. On the contrary, it will be greatly enhanced. Security of supply depends on a strong domestic energy industry capable of developing new energy resources to meet our future requirements. Free trade will strengthen Canada's energy industry, both through new investment and through an increase in exploration and development activity. In turn, this will enable the industry to find and develop the energy resources necessary to ensure that Canada's requirements are met.

19 **Question:** **What about future oil and gas development?**

Answer:

It's important to keep in mind that with the creation of an open investment climate and a free energy market, and the elimination of the damaging constraints of federal policies like the Foreign Investment Review Agency (FIRA) and the National Energy Program (NEP), we will see a resurgence of investment in the oil and gas sector.

New activity in the energy industry will stimulate our service industries. This will mean more jobs … jobs for Albertans, and jobs for Canadians … because an expanding western Canadian energy industry translates into more jobs for steel workers and equipment manufacturers.

20 **Question:** **What will happen to oil and gas investment incentive programs?**

Answer: The free trade agreement specifically allows existing or future incentives for oil and gas exploration, development, and related activities in order to maintain the reserve base. Alberta will maintain its full authority over incentive programs and any changes in the future will be the result of provincial government policy decisions.

Article 906
Page 147

With the creation of a new investment climate, a free energy market, and an ability to offer incentives, there will be an increase in investment in the oil and gas sector.

21 **Question:** **What about ownership of Canadian energy companies?**

Answer: Companies, whether of Canadian, American, or other nationality, wishing to invest in Alberta and to have access to our resources, have to follow the same rules to ensure Alberta benefits from their presence. Alberta has the full range of legislative and regulatory measures in place to control the energy sector in Alberta and to ensure responsible, corporate behavior. Existing federal investment and acquisition policies remain in place - takeovers of healthy energy companies are not permitted.

Annex 1607.3-4
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The ownership of the resources does not change. The resources still belong to the people of Alberta, and are managed on their behalf by the Government of Alberta.

III. AGRICULTURE

22 **Question:** **What happens to the agricultural sector under a free trade agreement?**

Answer: Agriculture in Alberta will benefit from the agreement. It provides greater market access, increased market opportunities, and enhanced security of access.

The United States is Alberta's largest market for agriculture and food products and a key to the future development of this industry. Alberta's agriculture and food exports to the U.S. totalled $440 million in 1987, about one-quarter of our total agricultural exports.

Canada has obtained access which is more secure and free of tariffs and other barriers for agricultural and food products which are of major export interest (such as meat and livestock, grains and oilseeds, and products). The existing marketing systems for dairy, poultry and egg products are maintained. The right, should circumstances warrant, to implement new supply management programs and import controls under the General Agreement on Tariffs and Trade (GATT) are retained.

23 **Question:** **How will the phase-out of tariffs affect the agriculture and food sector?**

Answer:
Article 401
Page 49

Tariffs will be phased out gradually over a period of up to 10 years to allow farmers and agri-business time to make needed adjustments. Provision also exists for both countries, by mutual agreement, to accelerate tariff removal on specified products.

Article 702
Page 79

The fresh fruits and vegetables sector, however, will have extended protection for up to 20 years through a mechanism tied to import prices and domestic acreage level. Overall, the removal of tariffs will provide a strong incentive for expansion and diversification of value-added processing.

24 **Question:** **How will Alberta meat and livestock producers benefit from free trade?**

Answer:
Article 704
Page 83

Alberta beef producers will benefit by being exempted from the application of the U.S. Meat Import Law, and cattle and red meat producers from the removal of tariffs, import fees, and non-tariff barriers. The United States is by far the largest export market for Alberta beef producers and processors, and the agreement effectively prevents restriction of access. Exports of beef and live cattle to the United States reached $166 million in 1987, while exports of swine and pork products were approximately $103 million.

The United States will implement an open border policy for meat inspection. This means that only spot checks will occur with Canadian shipments to the United States.

Both Canada and the U.S. import beef for manufacturing and other meats from third countries. If either Canada or the U.S. places restrictions on these third country imports, the agreement allows the party imposing the restrictions to impose quantitative import restrictions on the other party. However, these import restrictions may be implemented only to the extent and for such period of time as required to prevent third country trade diversion through the other party. Notification and consultation prior to taking action must be undertaken.

25 **Question:** **How will free trade affect grain and oilseed producers?**

Answer:

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Although the United States is a relatively small market for Canadian grain and oilseed exports, Alberta producers can expect increased market opportunities, specifically for canola oil, high quality oats, malting barley, feed barley, and wheat. The commitment not to impose quantitative restrictions on grain imports from Canada - provided grain-support programs do not significantly distort trade - promises improved access for our grain and grain products in the U.S. market. As well, U.S. agreement to recognize the terms ''canola oil'' and ''low erucic acid rapeseed oil'' as synonymous, means canola oil will no longer face U.S. labelling restrictions which prevented widespread acceptance by American consumers.

Article 701
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Canada also has obtained benefits for our producers in regard to subsidies. Direct export subsidies such as the U.S. Export Enhancement Program will be prohibited for bilateral agricultural trade. Both countries have agreed to take into account the export interests of the other when using export subsidies for sales into third markets. Regular consultations will be held.

Article 705
Page 83

The requirement for import licences for wheat, oats, and barley, and their products, will be eliminated - but only when total levels of support in both countries for each commodity are determined to be equivalent. Through the use of end-use certificates, the import of U.S. grain will not be allowed to have a negative impact on Canada's high quality standards. Imports will be strictly confined to their original intended end-use.

26 **Question:** **What is the purpose of outlining each country's government support programs for wheat, oats and barley?**

Answer:

Annex 705.4
Page 91

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Article 701.5
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Annex 705.4 sets out the method of calculating levels of government support for the purpose of determining whether U.S. support for each grain and grain product is equal to or less than Canada's (in which case Canada is obliged to eliminate any import permit requirements). It is not a list of government programs that are required to be modified or eliminated under the terms of the agreement.

27 **Question:** **The agreement requires changes to the Western Grain Transportation Act. What impact will these have?**

Answer: Canada has agreed to eliminate Western Grain Transportation Act (WGTA) payments on products (such as canola meal and oil, and millfeeds) moving through west coast ports to the United States for American consumption. It is clearly understood that shipments through Thunder Bay, or exports to third countries through west coast ports, are excluded from this provision. The removal of WGTA payments on U.S.-destined products will marginally reduce the rate of return to Alberta processors in the short term, but the industry will remain competitive in the longer term as tariffs are phased out. It should be noted that prior to 1984, many of these products were shipped without benefit of the WGTA payments.

Article 701.5
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28 **Question:** **What is Canada's two-price grain policy and how is it affected by the agreement?**

Answer: The Canadian two-price grain policy applies to wheat, barley, and oats. The most discussed aspect is the Two-Price Wheat Program which affects only 7.0 per cent of the wheat produced in Alberta. Under this program, the Government of Canada sets a range in which the Canadian Wheat Board (CWB) is allowed to sell wheat to domestic processors. This policy allows for returns significantly above world prices for domestic sales and these are reflected in higher CWB pooled returns, or higher than normal market returns for wheat producers outside the CWB area.

Article 705
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Oats and barley sold in Canada to processors of products for domestic use and for special uses based on unique quality characteristics are known to be priced at levels higher than for export. This results in designated CWB pools.

The removal of import licences for grains and their products, and the removal of tariffs on foods processed from grains, implies that changes in domestic policy are required to maintain and enhance competitiveness. To this end, the federal government has already indicated that the two-price wheat policy will be altered in such a way that farmers will continue to receive support, while processors will be able to compete in both domestic and international markets.

29 **Question:** **What will be the impact of the agreement on Canada's supply management system?**

Answer: The operations of Canadian marketing boards will not be affected by the agreement. Canada also has retained its flexibility in domestic policy-making. We are free to introduce new supply management programs supported by import controls in accordance with GATT rules.

The retention of import quotas and the import control list will continue to regulate import volumes of supply-managed commodities, so that the impact of tariff removal for these products will be limited.

30 **Question:** **What happens to Canada's import quota levels for poultry and egg products and what are the implications for Alberta?**

Answer: Global import quotas for poultry and egg products will undergo a one-time change to reflect average levels of imports over the past five years. Poultry and egg imports, which have come almost entirely from the U.S., are comprised of products coming in under the global quotas plus those permitted entry via the application of supplementary (discretionary) quotas. In effect, the new global import quotas merely formalize the situation existing over the past five years and, as such, will have little impact on Alberta producers.

Global import quota levels will be revised as follows:

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- Chicken - from 6.3 per cent to 7.5 per cent of Canadian domestic production
- Turkey - from 2.0 per cent to 3.5 per cent of domestic production
- Shell Eggs - from 0.675 per cent to 1.647 per cent of domestic production
- Liquid Eggs/Yolks - from 0.415 per cent to 0.714 per cent of domestic production
- Powdered Eggs - from 0.615 per cent to 0.627 per cent of domestic production

If circumstances show that our domestic industries are being harmed by an influx of foreign products, Canada retains the right to add to its import control list those chicken, turkey, and egg products not now on the list (consistent with our current GATT rights and obligations).

The supplementary import quota system will continue to operate on a need basis, and will allow for additional imports as deemed necessary by the federal government and the industry.

31 **Question:** **How will the agreement affect dairy producers?**

Answer:
Article 706
Page 84

The effect on dairy producers will be minimal. There will, in fact, be no change in the import quotas of dairy products. Tariffs will eventually be eliminated on dairy products but importation of these products is tightly controlled (many products are prohibited), and the federal government has indicated it will add ice cream and yogurt to the import control list.

32 **Question:** **How will the agreement affect the horticulture industry, particularly fruits and vegetables?**

Answer: The federal government recognizes the special sensitivities and requirements of the Canadian horticultural industry. The existing tariffs for fresh fruits and vegetables will be phased out over 10 years. However, for a 20-year period, both countries retain the right to apply a special duty to protect producers from surges of imports. This will allow all affected producers in Alberta adequate time to adjust.

Article 702
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Nothing in the agreement prevents Canada from continuing its restrictions on bulk container shipments and consignments selling, provided they remain consistent with our GATT obligations.

Removal of tariffs will help the major Alberta horticultural exports to the United States (eg. seed potatoes), and will contribute to increased exports of canned and processed vegetables, thus providing more markets for local producers.

33 **Question:** **Does the agreement allow the use of non-tariff barriers to trade, such as technical regulations?**

Answer: This agreement has established a framework which ensures that there will be minimal disruptions of our trade in agricultural and food products as a result of the misuse, at the federal, provincial or state level, of technical regulations as disguised trade barriers.

Article 708
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We will be working toward harmonization of our technical regulations where practical, acceptance of each other's systems where equivalent, and elimination of those practices which constitute arbitrary, unjustifiable or disguised trade barriers. This is most beneficial to Alberta since U.S. non-tariff barriers in the form of standards and technical regulations have injured our agricultural exports in the past.

34 **Question:** **Will Canada be forced to reduce its high standards?**

Answer: Minimizing technical barriers does not mean that we are reducing our standards. Nor are we jeopardizing our reputation as producers of high-quality products, and world leaders in disease control.

Annex 708.1
Schedule 9
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Among the benefits accruing to Alberta agricultural producers will be an open border policy for meat inspection, U.S. recognition of the term ''canola oil'' for labelling, and an end to origin-staining requirements for alfalfa and clover seed exports.

35 **Question:** **What is the significance of the United States agreeing not to impose quantitative restrictions or import fees on Canadian products containing 10 per cent or less sugar by dry weight?**

Answer: This agreement does not affect existing U.S. sugar import quotas and current restrictions on imports of products that contain sugar. However, Alberta products that contain 10 per cent or less sugar will have assured access to the U.S. market.

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Since the term ''sugar'' refers specifically to sugar produced from sugar cane or sugar beets, the use of high fructose corn syrup, honey and other sweetners in Alberta products that are exported will not be hampered. In addition, Canadian high fructose corn syrup will benefit from the removal of the U.S. tariffs.

IV. VARIOUS ECONOMIC SECTORS

36 **Question:** **Does the free trade agreement alter our control of financial services?**

Answer: The free trade agreement preserves the access that Canadian and American financial institutions have to each other's market. Also, both Canada and the United States have agreed to continue liberalizing other rules governing their respective financial markets, and to extend the benefit of such liberalization to institutions in both countries. The control of the Canadian financial system will remain in Canadian hands.

Article 1701-2
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Article 1408
Page 202

Financial services are defined within the agreement as including the banking, insurance, and brokerage industries.

37 **Question:** **Will Alberta petrochemical producers gain from the agreement?**

Answer: The agreement will provide substantial benefits to Alberta's petrochemical producers. Since the mid 1970s, nearly $6 billion has been invested in Alberta in the development of a modern world-scale petrochemical industry. It has provided tens of thousands of jobs in the construction industry, plus permanent employment for approximately 6,000 people in the Red Deer, Edmonton, Redwater, and Medicine Hat areas.

Article 401
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Petrochemical exports to the U.S. totaled more than $600 million in 1987, despite some of the highest tariffs in the industrial sector - ranging from 7.4 per cent to 12.5 per cent for ethylene-based derivatives, and 18 per cent for methanol. Tariffs on petrochemicals and chemical products will be phased out over a five-year period beginning January 1, 1989.

The elimination of tariffs and the securing of access to the large U.S. market will increase exports of Alberta petrochemicals. It also will advance planned investment in petrochemical facilities, generate new investment, and improve company profitability. This will strengthen the Alberta economy by diversifying its economic base further. More importantly, it will generate jobs - first, during the construction of petrochemical plants, and then permanently during the actual production of petrochemicals.

38 **Question:** **Does the forest industry benefit from free trade?**

Answer: The forest products industry, one of Alberta's key sectors for economic diversification, will benefit from the Free Trade Agreement. The Alberta forest products industry employs approximately 10,000 Albertans, and exported about $750 million worth of products to the U.S. in 1987.

The two major products, softwood lumber and bleached kraft pulp, have had tariff-free trade with the United States for a long time. Softwood lumber, however, will continue to be subjected to the 15 per cent export charge as the Canada/U.S. Memorandum of Understanding on Softwood Lumber was grandfathered into the Free Trade Agreement.

There is currently a 20 per cent tariff on Canadian plywood exported to the United States. This tariff was scheduled to be eliminated over ten years if CMHC evaluated and accepted U.S. C-D grade plywood. However, CMHC rejected U.S. C-D grade plywood. Now if a panel of experts from Canada and the United States do not approve the evaluation by CMHC, the 20 per cent tariff will remain in place and so will the 4 per cent tariff on oriented strandboard, waferboard, and medium density fibreboard.

The tariffs on other products such as fine paper, windows, doors, etc., will be eliminated. This will provide opportunities for Alberta to develop these products and export them to the U.S. This will lead to expanded and diversified exports, enhance new investment and provide more employment.

39 **Question:** **How will the services industries be affected?**

Answer: The free trade agreement will benefit the services sector in Alberta, which accounts for nearly 60 per cent of Gross Provincial Product or approximately $36 billion. Services exports to the U.S. are estimated to be $500 million in 1987. While these exports are a small percentage of the overall services sector, they represent a dynamic and growing portion of the economic activity in the industry.

Annex 1408
Page 201.3

Many of the industries (health and welfare services, education, religious organizations, etc.) in the services sector are not generally traded and will not be directly affected. Other service industries are traded and will benefit from expanded opportunities. These include tourism, enhanced telecommunications, computer services, oil and gas field services, and architectural consulting, among others. Even traditional service sectors - like wholesale and retail trade - which are not involved in international trading should benefit, as consumers purchase more goods as a result of higher real incomes.

The trade agreement should result in more jobs in the services sector. The April 1988 study by the Economic Council of Canada estimated that the Alberta services sector should grow by an **extra** 1.5 per cent as a result of free trade.

40 **Question:** **Will there be a negative effect on the services sector work force - especially women?**

Answer: There is no reason to believe that women - or men for that matter - in the services sector will be negatively affected by the free trade agreement.

There are approximately 241,000 women working in the Alberta services sector. Generally, these services are not readily tradeable, and few could be directly performed in the United States rather than here in Alberta.

While the nontradeable services will not directly benefit from the free trade agreement, considerable indirect benefits are foreseen. Economic forecast groups have predicted the free trade agreement will result in an increase in Canada's Gross Domestic Product of 2 to 3 per cent. This means higher disposable income which will benefit the services sector and increase job opportunities for all Canadians.

41 **Question:** **Will Canada's cultural industries be affected by the free trade agreement?**

Answer: The Canada-United States Free Trade Agreement explicitly recognizes that Canada will retain the right to support its cultural industries (eg. publishing, film, recording, television, and radio broadcasting). The United States has acknowledged Canada's legitimate concerns over foreign investment in cultural industries, and realizes that Canada will continue to provide support and assistance to these industries.

Article 2005
Page 296-7
Definition

Evidence of other economic trade agreements - like those among the countries of the European Community, or more recently between Australia and New Zealand - has demonstrated that the cultural identities within those countries continue to flourish. Markets for cultural industries have grown, as has mutual understanding. This is already occurring between Canada and the United States.

42 **Question:** **What will be the effect on the brewing industry?**

Answer: The free trade agreement does not require any changes of Canada's brewing industry. Therefore, the agreement will not jeopardize brewery workers' jobs. The operation of the provincial liquor control boards, in relation to beer, will be unaffected by the agreement.

Article 801
Pages 137

Article 807
Page 140

It should be noted that the broader issues of provincial liquor board practices have been determined to be discriminatory by the General Agreement on Tariffs and Trade (GATT), and this review could affect beer. The federal government has stated that Canada will accept this ruling, with the details of its implementation to be announced. Thus, while the free trade agreement does not require changes to provincial practices for beer, Canada's broader international obligations may lead to changes in the future.

43 **Question:** **What will be the impact on Alberta's oil and gas field equipment industry?**

Answer: Alberta's oil and gas field equipment industry has undergone remarkable technological changes in the past two decades. These changes have enabled the industry to seize opportunities worldwide, despite increasingly tougher competition and more elusive markets.

Alberta has developed expertise in steam stimulation equipment for heavy oil recovery and in surface mining machinery for oil extraction from oil sands. These technologies are exportable. Opportunities also exist for the development and export of enhanced recovery techniques for conventional oil and gas reserves, new seismic and drilling equipment, and new offshore exploration and development processes.

The more efficient Alberta companies already compete with U.S. firms. While some firms will have to adjust to competitive pressures arising from the free trade agreement, the industry as a whole will realize a net benefit as a result of free trade.

44 **Question:** **Will Alberta's developing high technology industry be affected by the agreement?**

Answer: Alberta's advanced technology sector spans virtually all of our economy. It ranges from the world's most advanced cold weather technology to satellite technology being used in the oil and gas field services sector to some of the most advanced telecommunications and biotechnology in the world.

Obviously, the benefits of the free trade agreement will vary depending on the specific industry. The free trade agreement will eliminate tariffs, make obtaining regulatory accreditations in the United States easier, and preclude a number of non-tariff measures facing parts of the industry. The advanced technology sector will benefit from greater and more secure access to the U.S. market.

V. OTHER ASPECTS

45 **Question:** **Why didn't we negotiate this agreement during the multilateral trade negotiations in Geneva, through the General Agreement on Tariffs and Trade (GATT)?**

Answer: The GATT negotiations are important for Alberta and Canada, and we definitely support this worldwide approach to trade liberalization. The negotiations will be lengthy and complicated - involving all the members of GATT, more than 90 countries. The last round of GATT negotiations took six years to conclude. With the large number of countries involved, deals are harder to make, and are not likely to be as comprehensive as a bilateral agreement. We will probably not see any liberalization from this current round of GATT talks before the mid-1990s, versus 1989 under the Canada-United States agreement.

Canada is continuing to pursue its international interests through the GATT, and to expand trading activity worldwide. Nonetheless, the United States is our biggest customer, purchasing 75 per cent of all our exports. For sound economic reasons, it makes sense to concentrate our efforts on the lucrative American market. We have been able to negotiate this deal far more quickly than would have been possible through the GATT because Canada and the United States have very similar business systems, a common language, similar commercial traditions, laws and business habits. As a result of such advantages, our bilateral agreement will go into effect sooner, and cover a greater range of commercial activity, including new areas such as services and investment, which other countries have not yet begun to address in terms of negotiations.

As we did in the 1930s, Canada and the United States can establish a precedent for the GATT negotiations and provide a model for what can be achieved if two parties want free trade. We can show the rest of the world the benefits of a more liberalized trading environment.

46 **Question:** **Did we obtain an effective dispute settlement process with the U.S.? Can the U.S. still harass us with trade complaints?**

Answer: After January 1, 1989, Canada will have an effective bi-national dispute settlement process that is clearly superior to the current system which permits unilateral U.S. action to harass Canadian exporters.

U.S. subsidy/countervail and anti-dumping complaints will now be subject to scrutiny by and appeal to a bi-national, independent body. This body will have the authority to overturn decisions, if national laws have been improperly or unfairly applied. This will mean that there can be no political or interest group pressure to influence the decisions. Additionally there will be strict time limits on the appeal process to ensure there are no lengthy delays. The United States will not be able to change its trade laws as applied to Canada in a way that would be contrary to the objectives of the agreement. Furthermore, the United States has even gone further by agreeing to negotiate completely new joint trade laws on subsidies and dumping to go into effect within five to seven years.

47 **Question:** **How would the softwood lumber complaint have fared in the new system?**

Answer: If the new dispute settlement mechanism had been in effect during the softwood lumber dispute, the Canadian industry would still have been subjected to the same lengthy countervailing duty investigation by the U.S. Department of Commerce. The new dispute settlement mechanism provides for a joint panel to which appeals can be made. Canada would have been more comfortable appealing to such a panel and therefore less likely to want to negotiate a settlement.

There was a significant body of legal opinion that thought Canada's case was strong and that the arguments put forth by the United States were both weak and based on incorrect evidence. The binational panel under the proposed dispute settlement procedure would have been more likely to provide an unbiased judgement.

VI. SOVEREIGNTY

48 **Question:** **Isn't Canada's sovereignty reduced by the free trade agreement? Won't Alberta's constitutional responsibilities be diminished?**

Answer: Canadian sovereignty is definitely not compromised by the Canada-United States Free Trade Agreement. Our nationhood, our parliamentary system, our multiculturalism - those things uniquely Canadian - are unassailable.

No outside force can change our parliamentary system or the relationship between the provincial and federal governments. Nothing in this agreement takes away our heritage or multicultural fabric.

The trade agreement does not alter Canada's Constitution - nor could it. The constitutional responsibilities and powers of the federal and provincial governments are unchanged.

49 **Question:** **What about Canada's social and other programs that enhance our quality of life?**

Answer: The free trade agreement won't affect medicare, unemployment insurance, old age pensions, the Canada Pension Plan, day care or other income assistance programs. Support to cultural groups will continue.

Indeed, by making our economy healthier through free trade, we will be in a better financial position to maintain and perhaps improve our social programs and cultural support.

50 **Question:** **Can the Alberta Health Care system remain in effect under the agreement?**

Answer: Yes. The free trade agreement will not affect the Alberta Health Care system. Services - including health, doctors and dentists - provided by government are not covered by the free trade agreement.

Article 1402.5
Page 198
Annex 1408
Pages 201-3

Further, the agreement does not require changes to existing laws or practices for services covered by the agreement. Any changes to existing regulations will be guided by an obligation not to increase discriminatory treatment. Any new regulations for these services are to conform to the principle of national treatment.

51 **Question:** **Can the United States dictate Canada's foreign policies and trade agreements with other countries?**

Answer: Canada will continue to develop and enunciate its own distinctive foreign policy, even after establishing closer trade ties with the United States. Canada will continue with its membership in the Commonwealth and La Francophonie, its strong leadership role at the United Nations, and its useful mediating role on sensitive issues such as South Africa.

The free trade agreement will not diminish Canada's international profile, or its ability to act independently. As a member of the powerful Western Economic Summit group of seven countries, Canada will still play a major independent role in influencing the economic and foreign policy of the western world.

Article 1907
Page 279

Canada also has a number of bilateral economic cooperation agreements with the European Community, Japan, China, the Association of South East Asian Nations, and other countries. We will continue our efforts to expand commercial relations internationallly. After free trade, Alberta will continue to send major trade and investment missions to those areas we have identified as potential markets, and we will still welcome other foreign investors.

Canada is working closely with like-minded agricultural exporters in the Cairns Group (including Australia, New Zealand, Argentina, Brazil, Thailand) to reform the world agriculture trading situation.

52 **Question:** **Is Canada's cultural identity threatened by the free trade agreement?**

Answer: Canada's ability to preserve and develop its cultural identity is fully protected in this agreement. Albertans, like all Canadians, are confident and secure in their own identity. We do not consider ourselves American and will not become American just because we are doing more business with the United States. Our cultural heritage, our varied ethnic backgrounds, our ties to the land, our frontier attitude, our western spirit, our social attitudes, all will remain the basis of our identity.

53 **Question:** **Will guaranteeing of loans or grants to help small businesses start up in the services sector be legal under the free trade agreement?**

Answer: The free trade agreement provides for the joint development of a new trade regime which includes government subsidies over the next five to seven years.

Article 1607
Pages 237-8

In the interim, current trade laws remain applicable. The Code on Subsidies and Countervailing Duties under the GATT to which both the United States and Canada are signatory, covers goods but not services. Therefore, government assistance in the form of loan guarantees and grants to small service businesses will continue to be permissible.

Government assistance to a company may be countervailable provided the subsidy is found to be significant and injurious to the U.S. industry. Loan guarantees are less likely to be countervailed than direct government financial assistance programs.

54 **Question:** **What effect will the free trade agreement have on Alberta policies and programs such as the Small Business Equity Corporation Program and Vencap?**

Answer: The investment provisions of the free trade agreement will apply to future regulations only. All existing laws, policies and practices, except where specific changes are required, will be grandfathered (allowed to stand unaltered). Thus, no changes would be required to either of the Acts governing the Small Business Equity Corporations Program nor to Vencap.

The agreement does require that national treatment be applied to future regulation. U.S. investors will be accorded treatment no less favourable than that accorded Alberta investors in like circumstances. This does not mean that Alberta taxpayers will subsidize the operations of U.S. corporations outside the province. Most programs include economic benefit or job creation criteria, and these types of eligibility benchmarks will not be affected by the free trade agreement. Consequently, if U.S. investors are unable to demonstrate the benefits of their activities on the Alberta economy, they will not qualify for assistance.

55 **Question:** **How does the free trade agreement affect the federal/provincial initiative to eliminate interprovincial trade barriers?**

Answer: The First Ministers agreed, in November 1987, to establish a Committee of Ministers responsible for the reduction, and where possible the elimination, of internal barriers to trade. Five areas are being examined initially: government procurement, liquor marketing, professional mobility, norms and standards, and transportation regulations. While not addressed by the free trade agreement, certain policies and practices inhibit interprovincial trade and adversely affect the international competitiveness of Canadian industries. The free trade agreement should provide an impetus to remove these policies and practices.

56 **Question:** **As tariff barriers are removed, could technical barriers such as health standards be used to protect industries?**

Answer: The free trade agreement recognizes the rights of each country to maintain regulations for health, safety, environmental, national security, and consumer protection. At the same time, it recognizes that technical barriers could be manipulated to impede trade in the absence of rules to prevent such abuses.

By affirming both parties' obligations under the GATT respecting federal measures affecting industrial products, the free trade agreement does not allow the use of standards as impediments to trade. In addition, both countries will attempt to increase the compatibility of their standards-related measures to reduce trade barriers while at the same time ensuring that factors such as health and safety are not jeopardized.

57 **Question:** **What effect does the free trade agreement have on environmental standards?**

Answer: Canada will not lose its capacity to protect the environment and determine environmental standards. Canadian environmental laws and regulations will have to be met by both domestic industries and by U.S. industries wishing to locate in Canada.

Both Canada and the United States reaffirmed their commitment to the GATT Standards Code. The code specifically states that no country should be prevented from taking measures necessary to ensure the quality of the environment, subject to the requirement that the measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination.

The technical standards, other than agricultural, of provincial and state governments are explicitly excluded from the free trade agreement. The province can maintain its current legislation and will be able to implement new programs.

58 **Question:** **What affect will the agreement have on Canada's water resources?**

Answer: Water is covered as a "good" under the Beverages, Spirits, and Vinegar section of the Tariff Schedules of the Free Trade Agreement. These tariffs are usually associated with shipment of water as a packaged product (e.g., bottled water, carbonated water, flavoured water).

The Free Trade Agreement does not impose an obligation to **supply** water where no supplies or export previously existed. There is no obligation to conduct any interbasin transfer of water and no obligation on the province to supply water in this fashion. The federal government has ruled out any large scale export of water through diversions; Alberta has said the same thing. Nothing in the Free Trade Agreement obliges us to sell water to the U.S.

VII. CONCLUSION

59 **Question:** **How was Alberta involved in the trade negotiations?**

Answer: Alberta was extensively involved in the development of Canada's position. The First Ministers' Conference on the Economy in Halifax in November 1985 saw agreement reached among the premiers and the Prime Minister on ''full provincial participation'' in the trade negotiations.

For the full 18 months of the negotiations, Premier Getty acted as chairman for the Annual Premiers' Conference on the trade issues. Premiers met with the Prime Minister 10 times through the negotiations, and Premier Getty forcefully pursued Alberta's priorities of agriculture and energy.

These First Ministers' meetings were supplemented by ministerial meetings, and position papers sent to Ottawa by Alberta's designated minister for trade negotiations, Jim Horsman, minister of Alberta Federal and Intergovernmental Affairs. Mr. Horsman worked closely with other ministers on the Alberta Task Force on Trade Negotiations: Larry Shaben, Economic Development and Trade; Peter Elzinga, Agriculture; and Provincial Treasurer Dick Johnston.

In addition, there were 20 meetings of the Federal-Provincial Continuing Committee on Trade Negotiations chaired by Ambassador Simon Reisman, the federal chief negotiator, and involving the trade representatives of each province. Numerous other subcommittees discussed technical details.

60 **Question** **What would happen if there is no free trade agreement?**

Answer: For Canada's trade future, there is no status quo to protect. As a result, the failure to implement the free trade agreement could pose some serious obstacles to our trading environment:

- first, the economic benefits described by all the research groups would be forgone;
- second, the protectionist trend in the United Stares may continue with greater adverse impact on Canada;
- third, trade irritants and complaints would increase and become more of a problem in the absence of a dispute reolution mechanism; and
- fourth, the progress and prosperity for wider trade liberalization in the GATT multilateral trade negotiations could be jeopardized. If Canada and the United States can't agree on a trade deal, who can?

61 **Question:** **What happens next?**

Answer: The free trade agreement was signed by Prime Minister Brian Mulroney and President Ronald Reagan on January 2, 1988. Both the Canadian Parliament and the United States Congress must now consider the actual legislation required to implement the agreement. This consideration must address the agreement as signed by the two governments. It cannot be changed; it must be either accepted or rejected.

The process will continue through the summer of 1988. The agreement is slated to go into effect on January 1, 1989, after all the required legislation has been passed in both countries.

The Alberta government has reviewed Bill C-130, the federal government's legislation to implement the Canada-U.S. Free Trade Agreement, particularly those elements which deal with federal and provincial implementation. We have concluded that neither the agreement nor the federal bill alter the province's responsibility and capability to manage, develop and control Alberta's energy and other natural resources. The constitutional amendments to Section 92A, which Alberta secured in 1982, expand and reinforce our jurisdiction related to energy and natural resources, and these constitutional provisions have not been changed by the Free Trade Agreement.

Alberta regrets that the federal government has found it necessary to regulate in an area of provincial responsibility, specifically Section 9, through which the federal government is empowered to make regulations with respect to Chapter 8 of the Agreement (wines and spirits). However, Section 9 will only be brought into force in those provinces that refuse to implement the wine liquor provisions. Accordingly, this Section will not apply to Alberta, as this province will implement those provisions within Alberta.

Alberta will soon pass legislation dealing with the implementation of the Free Trade Agreement in Alberta. This will make it clear that implementation for our province, in areas of provincial constitutional responsibility, will be the result of provincial – not federal – measures. In addition, Alberta will continue to act in its areas of constitutional responsibility, and deal with issues related to the ongoing provincial implementation of the Free Trade Agreement.

Finally, we will monitor closely any federal initiatives associated with the Agreement and continue to carry out our constitutional responsibilities with respect these initiatives.